

Overview

For the first time since 1993, California began the fiscal year with a state budget in place. Although the Legislature narrowly missed meeting its June 15 constitutional deadline for transmitting the budget bill to the governor, Governor Gray Davis signed Senate Bill 160 (Chapter 50/99) into law on June 29. This measure, along with Assembly Bill 1115 (Chapter 78/99), four other education trailer bills, and four measures previously enacted in a special legislative session on education reform, sets the conditions for the allocation of state funds for the public schools through June 30, 2000.

This section presents a brief overview of the 1999 Budget Act, including the major provisions relating to K–12 education. The sections that follow present in more detail the specific provisions of the 1999-00 spending plan for public schools. Each of those sections contains the pertinent facts of the budget and associated trailer bills, including the Budget Act item and *Education Code* sections authorizing the expenditures and the SACS code to be used in accounting for them locally. In addition, comments concerning implementation schedules and reporting deadlines to help local educational agencies in planning their 1999-00 budgets appear separately. Finally, the names of persons to contact and their telephone numbers are included to help staff from local educational agencies who may have questions not addressed in this report.

State General Fund Budget

For the second year in a row, the 1999 Budget Act reflects a dramatic improvement in state tax revenues relative to the Governor's original budget proposal. Specifically, the budget assumes that the state will receive \$4.3 billion more in tax revenues over the two-year period 1998-99 and 1999-00 than was estimated in January 1999. In total, state and local funding for

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ongoing purposes has grown by \$2.4 billion—an increase of \$347 (6.1 per cent) per pupil in average daily attendance (ADA). In addition, schools will receive \$366 million—\$66 per ADA—in one-time funds that count toward meeting prior years' Proposition 98 guarantee requirements.

Table 1 shows total General Fund revenues, expenditures, and year-end reserves for both 1998-99 and 1999-00. The table shows that, under the 1999 Budget Act, the budget year is expected to end with a reserve of \$881 million (1.4 percent of General Fund revenues).

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Table 1 • General Fund Summary
(Dollars in Millions)

	1998-99	1999-00
Prior-Year Balance	\$ 3,064	\$ 2,412
Revenues	57,927	62,981
Total Resources	60,991	65,393
Total Expenditures	58,579	63,732
Fund Balance	2,412	1,661
Other Obligations	480	480
Set-Aside for Employee Compensation and Litigation	—	300
Reserve	\$ 1,932	\$ 881

K–12 Education Highlights

Table 2 summarizes total funding for K–12 education from all sources in 1999-00. The table shows that the budget proposes total funding of nearly \$44.3 billion. The table also shows that, of this total, \$33.6 billion (about 76 percent) counts toward meeting the state’s constitutional funding obligation under Proposition 98.

**Table 2 • Funding for K–12 Education
All Sources and Proposition 98
(Dollars in Millions)**

Sources of Funding	Funding from All Sources*	Funding Guaranteed by Proposition 98
State General Fund	\$26,045	\$23,748
State Lottery	786	—
Other State Funds	65	—
Federal Funds	4,354	—
Local Property Tax	9,936	9,865
Local Debt Service Tax	498	—
Other Local Funds	2,595	—
TOTAL	\$44,279	\$33,613

* Includes California Department of Education state operations, state special schools, state school facilities bond repayments, and contributions to STRS, State Library, and Commission on Teacher Credentialing.

Proposition 98. Proposition 98, approved by the voters in 1988, provides K–12 schools and community colleges with a constitutionally guaranteed minimum level of funding. Although the actual calculation of the guarantee is quite complex, the basic principles of Proposition 98 are relatively simple:

- In years of “normal” state revenue growth, K–14 education is guaranteed a level of state and local funding at least equal to that which schools and community colleges received in the

prior year, adjusted for changes in enrollment and per capita personal income.

- In years of extraordinarily “good” or “bad” revenue growth, K–14 education participates in the state’s gains or losses according to specified “fair share” formulas.
- Following a “fair share” reduction in the level of the Proposition 98 funding guarantee, the state is obligated to eventually restore K–14 education funding to the level that schools and community colleges would have received if no reduction had occurred. The pace of this restoration is tied to the pace of the state’s economic recovery.

Test 1, Test 2, and Test 3. In practice, the minimum funding guarantee is determined by one of three so-called tests. Specifically, K–14 education is guaranteed a minimum funding level based on the greater of:

Test 1—Percent of General Fund Revenues: the percentage of state General Fund tax revenues received by schools and community colleges in 1986-87 as adjusted for the impact of shifts in property taxes from local governments to schools (currently about 34.6 percent)

OR

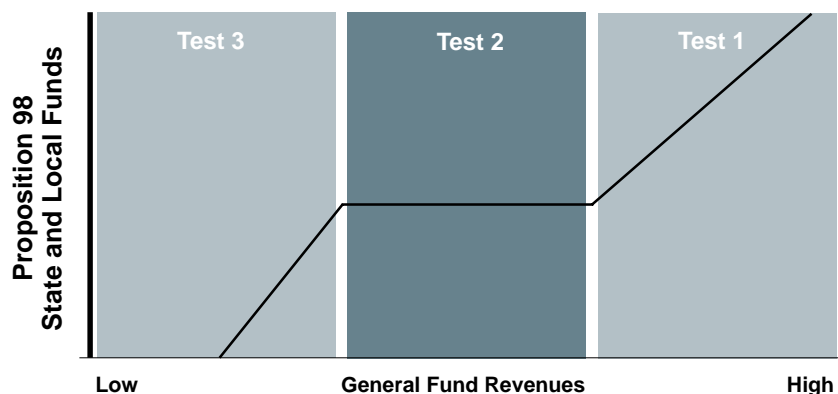
Test 2—Maintenance of Prior-Year Service Levels: the prior-year level of funding from state aid and local property taxes increased for enrollment growth and “inflation” as measured by the change in per capita personal income

However, in years when the growth in personal income exceeds the growth in General Fund revenues by more than 0.5 percent, the following alternative test is substituted for Test2:

Test 3—Adjustment Based on Available Revenues: the prior-year level of funding from state aid and local property taxes increased for enrollment growth and “inflation” as measured by the change in per capita General Fund revenues plus 0.5 percent

Test 3 is intended to ensure that K–14 education bears a “fair share” of the state’s total budgetary pain in years when General Fund revenue growth is insufficient to fully fund enrollment growth plus the full Test 2 inflation adjustment. (Note that Test 2 and Test 3 differ only in the inflation factors used.)

Chart 1 • Proposition 98 Guarantee



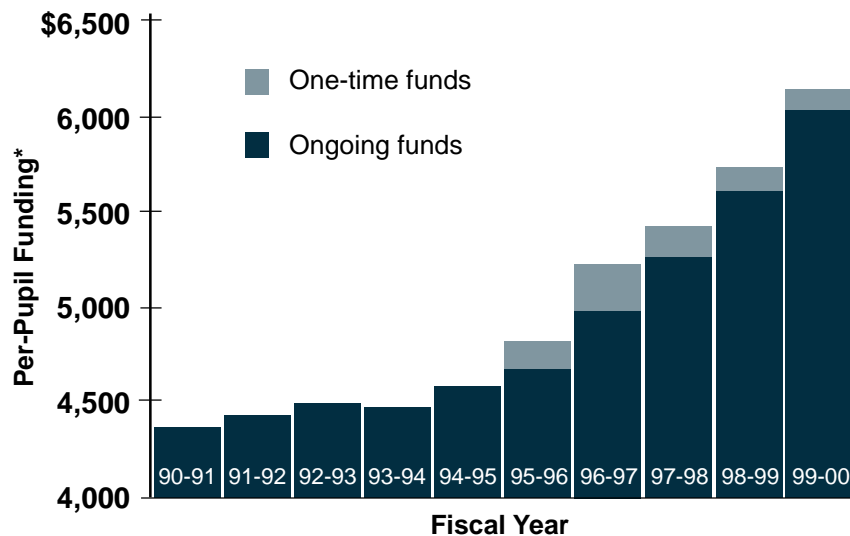
The Proposition 98 funding guarantee is generally computed as based on Test 2, which is unaffected by changes in General Fund revenues (see Chart 1). In years of very strong revenue growth, the guarantee is based on Test 1; and K–14 education gains or loses about 35 cents of every additional dollar of General Fund revenues gained or lost. In weak revenue growth years (such as during the recession of the early 1990s), when Test 3 applies, the guarantee is even more sensitive to changes in General Fund revenues—gaining or losing about 63 cents of every marginal tax dollar.

Under the revenue assumptions underlying the 1999 Budget Act, the Proposition 98 minimum funding guarantee for both 1998-99 and 1999-00 is determined by Test 2. As was the case last year, however, the budget once again funds K–14 education at levels exceeding the minimum amounts required by the State Constitution. Specifically, the budget provides schools and community colleges with about \$700 million more than would have been required had they been funded at just the bare minimum requirements during those two years.

Restoration. If the Proposition 98 guarantee is reduced because of the application of Test 3 (or a suspension of the guarantee), the amount lost in that fiscal year is never repaid. The funding level must eventually be restored in the future, however, according to a formula that is tied to the pace of the state's economic recovery. The restoration target level for any year equals the sum of that year's Test 2 guarantee plus a "maintenance factor" that represents the cumulative amount by which the Proposition 98 guarantee has been underfunded (as adjusted for enrollment growth and inflation).

During the recession of the early 1990s, the outstanding maintenance factor grew to \$2.2 billion at the end of 1993-94. During the past several years, however, Proposition 98 funding has more than covered enrollment growth and inflation. As a result, at the end of 1997-98, the \$2.2 billion was fully restored. This process of restoration was primarily responsible for the major funding increases received by K-14 education in 1995-96 and 1996-97. More recently, however, another factor has been at work: the extraordinary growth of tax revenues resulting from a booming state economy. The availability of these new revenues has enabled the Legislature and the Governor to provide funding in excess of the Proposition 98 minimum funding guarantees from 1997-98 through 1999-00.

Chart 2 shows the trend in Proposition 98 funding per pupil in kindergarten through grade twelve (actual cash received) from 1990-91 through 1999-00. The chart shows that, under the 1999 Budget Act, schools will have received an average of \$5,766 per pupil in average daily attendance (ADA) (\$5,692 in ongoing funds and \$74 in one-time funds) in 1998-99; in 1999-00 schools will receive an average of \$6,106 per ADA (\$6,040 in ongoing funds and \$66 in one-time funds). These amounts are 4.7 percent and 10.9 percent higher, respectively, than the \$5,506 per ADA received in 1997-98.

Chart 2 • Proposition 98 Funding Per Pupil

* Pupils measured as average daily attendance (ADA), excluding excused absences.

K–12 Education Spending Plan

As noted, the budget estimates that state and local funding for K–12 schools that counts toward Proposition 98 will total \$33.6 billion. The budget also shows \$31.6 billion in state and local funding counting toward Proposition 98 in 1998-99. According to the budget, therefore, Proposition 98 funding for K–12 schools will have increased by nearly \$2 billion, or 4.8 percent per ADA.

These figures, however, significantly understate the actual increase in Proposition 98 funds available for ongoing program purposes. As shown in Chart 3, the budget provides for \$2.8 billion in new Proposition 98 spending.

This situation occurs because \$323 million of the \$31.6 billion in state and local funding that the budget counts toward meeting 1998-99 Proposition 98 funding requirements was not spent in 1998-99. Instead, these funds were reappropriated to support programs (\$80 million in ongoing funds and \$243 million in one-time funds) in 1999-00. As a result, the amount of state and local

funding actually available to local educational agencies for ongoing purposes in 1998-99 was only \$31.3 billion, and the amount available for ongoing purposes in 1999-00 is nearly \$33.7 billion—a year-over-year increase of \$2.4 billion or 6.1 percent per ADA.

Chart 3 • \$2.8 Billion in New Proposition 98 Spending

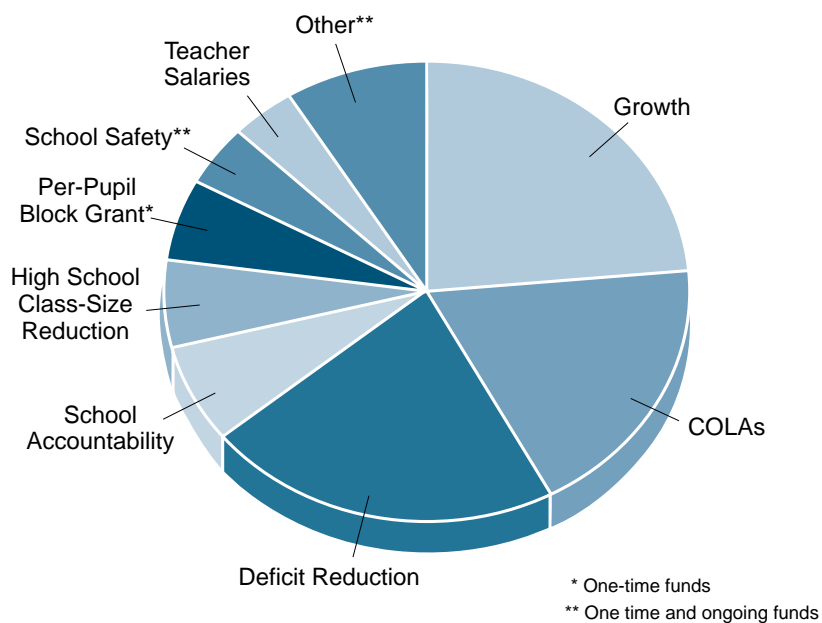


Table 3 details the proposed uses of the \$2.4 billion in Proposition 98 funding available for new, ongoing program purposes.

**Table 3 • Uses of New Proposition 98 Funds
for Ongoing Program Purposes**
(Dollars in Millions)

Enrollment growth	\$565.4
K–12 apportionments	434.5
Special education	58.1
Other categoricals	72.8
Cost-of-living adjustments	\$445.7
K–12 apportionments	314.7
Special education	39.5
Other categoricals	91.5
Revenue-limit deficit reduction	\$455.0
New and expanded programs	\$897.2
High school class-size reduction	146.3
School performance awards (Ch 3/99)	96.2
After-school programs	85.0
Reading programs (Ch 2/99)	83.0
Child development programs	83.0
School safety (Ch 51/99)	71.1
Immediate interventions/underperforming schools (Ch 3/99)	63.7
English-language learners (Ch 71/99)	55.0
Certificated salary bonuses (Ch 52/99)	50.0
Beginning teacher salary increase (Ch 53/99)	50.0
Mentor teacher/peer review (Ch 4/99)	44.5
Classroom libraries, K–4 (Ch 78/99)	25.0
Beginning teacher support and assessment	24.4
Charter school funding model	20.0
Other	\$34.3
Total	\$2,397.6

In addition, as shown in Table 4, local educational agencies will receive \$366 million (\$66 per ADA) in funding for one-time purposes. These funds result primarily from one-time savings due to lower-than-estimated program costs in 1998-99 and prior years.

**Table 4 • Uses of New Proposition 98 Funds
for One-Time Purposes
(Dollars in Millions)**

Per-pupil block grant (instructional materials)	\$134.0
Special education deficit (1998-99)	75.6
Digital High School	44.2
Mandate claims	40.6
School safety (Ch 51/99)	28.9
Special-purpose grants	15.5
Desegregation claims	10.3
California Student Information System (CSIS)	5.0
College preparation programs	5.0
Other	6.7
Total	\$365.8